

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6361**

**BILL NUMBER:** SB 17

**DATE PREPARED:** Mar 14, 2002

**BILL AMENDED:** Mar 13, 2002

**SUBJECT:** Rainy Day Fund loans.

**FISCAL ANALYST:** Bob Sigalow

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**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (CCR Amended) This bill authorizes the State Board of Finance to make loans from the Rainy Day Fund for the taxing units located in Porter County that will experience a budget shortfall as the result of the bankruptcy of a steel manufacturer located in the county. The bill provides that the loans must be repaid over a period not to exceed ten years. It also provides that interest on a loan may not exceed the percent of increase in the federal Consumer Price Index for Urban Wage Earners and Clerical Workers during the most recent 12-month period for which data is available as of the date of the loan application. The bill provides that interest may not be charged if a county income tax is adopted before a unit applies for a loan. It provides that interest on a loan ceases to accrue when the Board receives notice from the county auditor that the county has adopted at least one of the county income taxes. This bill provides that not more than one-third of the total amount to be loaned may be disbursed at any particular time without the review of the Budget Committee and the approval of the Budget Agency. It provides for expedited distributions of county adjusted gross income taxes (CAGIT) or county economic development income taxes (CEDIT) in the first year following adoption by Porter County. The bill also extends the deadline for imposition of CAGIT, CEDIT, or county option income in Porter County during 2002 from April 1 to May 15.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** (Revised) This bill permits qualified taxing units in Porter County facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for loans from the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund). The bill limits the total amount of the loans to \$28.0 M. Interest would be charged at the rate of up to the most recent twelve-month increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers that is available when the unit applies for a loan. However, no interest would be charged if Porter County adopts CAGIT, COIT, or CEDIT. The bill requires that the loans be repaid within 10 years. The balance of the Rainy Day Fund as of June 30, 2001, was \$526

M and is estimated to be \$526 M at the end of FY 2002.

If Porter County adopts a local option income tax, the Rainy Day Fund will suffer a loss of interest income on the outstanding loan balance. Based on the current six month U.S. Treasury Bill interest rate (1.88%), the state could forgo earnings of approximately \$44,000 in FY 2002, \$421,000 in FY 2003, and \$460,000 in FY 2004 if all of the qualifying units receive the maximum loan amounts and if the local option tax is adopted before the local units apply for the loans. The interest loss could be less if Porter County adopts a local option tax after the loans have been applied for. The total interest over the 10 year payback period is estimated at \$2.7 M. The loss of interest earnings will reduce the amount of funds available for transfer from the Rainy Day Fund to the state General Fund in FY 2002 and FY 2003 and the Property Tax Replacement Fund in years after.

### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) This provision would allow Porter County taxing units to each apply for one or more loans with repayment within 10 years. In order for the taxing unit to qualify, the bill would require an expectation of *continued* significant revenue shortfalls due to a steel manufacturer's default on tax payments. The maximum amount of an individual taxing unit's total loans be equal to the amount of the unit's share of the tax payment that was defaulted in November 2001 plus the unit's share of the estimated May, 2002, and November, 2002, tax payments. Each 2002 estimated payment would equal the November, 2001, payment multiplied by 1.031. The loan limit for a school corporation would be reduced to account for any amount of additional state tuition support received as a result of adjustments to the school corporation's assessed valuation. The total of all loans may not exceed \$28.0 M. The estimated maximum loan amounts are:

<b>Estimated Maximum Loans Due to Taxpayer Default Under Proposal</b>				
<b>Unit Name</b>	<b>December 2001 Tax Payment</b>	<b>Est. June 2002 Tax Payment</b>	<b>Est. December 2002 Tax Payment</b>	<b>Total</b>
Porter County	1,951,200	2,011,700	2,011,700	5,974,600
Portage Township	11,300	11,600	11,600	34,500
Westchester Township	22,500	23,200	23,200	68,900
Portage Civil City	122,300	126,100	126,100	374,500
Chesterton Civil Town	900	1,000	1,000	2,900
Burns Harbor Civil Town	603,500	622,200	622,200	1,847,900
Dune Acres Civil Town	5,200	5,400	5,400	16,000
Porter Civil Town	700	700	700	2,100
Duneland School Corporation	6,876,800	7,090,000	7,090,000	21,056,800
Portage Township School Corp	189,700	195,600	195,600	580,900
Westchester Public Library	395,100	407,400	407,400	1,209,900
Porter County Public Library	12,100	12,500	12,500	37,100
Porter Co Airport Authority	40,000	41,200	41,200	122,400
<b>Total</b>	<b>10,231,300</b>	<b>10,548,600</b>	<b>10,548,600</b>	<b>31,328,500</b>
The total of all loans may not exceed \$28.0 M.				

The bill requires Budget Committee review and Budget Agency approval if more than \$9.33 M in loans is

to be disbursed at any one time. The bill also stipulates that loan proceeds must first be used to repay \$3 M in loans already made by the Department of Commerce.

The money used to repay the RDF loans must come from a fund that is subject to the unit's maximum permissible levy or from any available non-property tax source. The loan obligation may not be used as a reason to petition for an excessive property tax levy. Furthermore, payments of the delinquent tax, if any, are considered to be property taxes received and are subject to the 102% excess levy calculations. These stipulations mean that a unit cannot use a Debt Service Fund levy or exceed its maximum levy to make loan payments. It also means that if the bankrupt taxpayer makes any payments of delinquent tax and those payments cause total property tax receipts to surpass the certified tax levy by 2%, then collections over 102% of the levy would be deposited into the Levy Excess Fund which is used to offset the following year's tax levy. Additionally, the bill requires that if loan proceeds plus any tax payments from the subject taxpayer exceed the taxpayer's liability, then the excess would be deposited into the taxing units' Levy Excess Funds.

*Local Option Income Tax (LOIT):* Under current law, a county must adopt a LOIT between January 1 and April 1 in order to take effect on July 1 of that year. The bill would allow Porter County to adopt CAGIT, COIT, and/or CEDIT by May 15, 2002, to take effect on July 1, 2002. The bill would also accelerate distribution of LOIT revenues for Porter County during the first 18 months that the tax would be in effect.

**State Agencies Affected:** State Board of Finance, Department of Local Government Finance; (State Tax Board); State Budget Committee; State Budget Agency.

**Local Agencies Affected:** Porter County taxing units listed above.

**Information Sources:** Porter County Auditor's Office; Local Government Database.